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SUBJECT: Argentina: President Declares Drought Emergency; Farmers Want More

Ref: Buenos Aires 14

¶11. (U) Summary: The GOA declared an agricultural emergency on January 26 due to the severe drought affecting most Argentine provinces. Under the decree, the GOA will allow producers in affected regions to delay payment of income taxes and personal property taxes for one year. The GOA will also eliminate payment for grain transport documents. The decree does not affect export duties for agricultural products (the main tax paid by producers). The drought is the most severe seen here in decades, and has had a major impact on Argentina's main agricultural regions (with losses estimated in excess of US\$5 billion). Farm leaders have declared the new measures insufficient, noting the substantial contribution of the sector to government finances during the agricultural boom of the last five years through high export taxes, and threatened to resume national protests in February or March. End Summary.

President Kirchner Declares Agricultural Emergency

¶12. (U) On January 26, President Cristina Kirchner declared an Agricultural Emergency for the provinces most affected by Argentina's worst drought in almost 50 years. Decree 33/2009, published on January 27, establishes that farmers qualifying for benefits will be allowed to delay the payment of income taxes and personal property taxes for one year. Law 22,913, under which Decree 33/2009 will be applied, establishes that an Agricultural Emergency can be declared only when producers have at least 50 percent of their production capacity damaged. That same law states that an Agricultural Disaster can be declared when at least 80 percent of productive capacity is damaged. The benefits offered by the Kirchner administration through Decree 33/2009 will only be eligible to farmers in provinces and counties in which their governmental authorities officially declare a state of emergency or disaster for those areas, as outlined in Law 22,913. The GOA declined to use the provisions of the law which provide for subsidized credit for affected producers.

¶13. (U) Representatives of the farming sector requested that the government also eliminate agricultural export duties (currently 35 percent for soybeans, the largest crop), which has been a longstanding, high-profile controversy here. The Minister of Production and Secretary of Agriculture both responded that the GOA does not envision the elimination of export taxes. Secretary of Agriculture Cheppi emphasized that current higher prices for soybeans removed any need for a reduction in export taxes. (International prices have increased in large part due to concerns about the Argentine drought's impact on world supplies of soybeans.)

¶14. (U) President Kirchner also announced that the grain transport

document (called "carta de porte" in Argentina) will be provided at no cost. Since 1992, issuing the transport document was a major source of income for one of the four farmer lobby groups in direct conflict with the government - the Argentine Agricultural Federation (FAA) - since the farm strike of last year. The FAA collected an estimated US\$1.15 million annually from issuing the documents, while other agricultural entities divided a similar amount among them. FAA President Eduardo Buzzi has strongly criticized the measure as a benefit for unions representing truck drivers, which support the government, rather than a real benefit for producers. Buzzi has been one of the most outspoken farm group leaders against the Kirchner administration's agricultural policy since the government's variable export tax plan launched in March 2008. Buzzi argued that the measure was an "economic sanction against his entity" and that "it is an insult to farmers to talk about a savings of AR\$10 million [slightly less than US\$3 million] when losses [due to drought] are between US\$4 to 5 billion." Government officials are claiming that this measure will save farmers an estimated AR\$200 million (or US\$57 million).

Impact of Drought

¶15. (U) Official and private sources estimate that for the 2008/09 crop, Argentina's production of wheat by volume will fall by 44 percent, while corn will drop an estimated 30 percent due to the drought and lower planted area. Although soybean yields could rebound if the major growing areas receive consistent and adequate rains throughout February, the 2008/09 soybean crop will undoubtedly produce substantially less than initially forecast due to a reduction in planted area and lower yields. Many farmers delayed or suspended planting soybeans due to lack of moisture. Post contacts estimate that losses to farmers will total over US\$5 billion, while tax revenue losses to the GOA could exceed US\$2 billion.

¶16. (U) The livestock sector is also suffering from one of the worst droughts in decades. In some areas, it is the worst in the past 100 years. Pastures were heavily damaged in a large part of the cattle-producing region due to dry weather that started in March of last year. Cattle losses have been substantial (some private estimates report as much as 500,000 head of cattle lost) due to the lack of feed and, in many cases, water as the water tables in many areas have fallen drastically. Many producers are sending their breeding cows to slaughter. The lower number of cows, plus the bad condition of the ones in production, will negatively affect 2009 calf crop significantly. Some contacts estimate that around 1.5 to 2.0 million fewer calves will be produced.

The Devil is in the Details

¶17. (U) The actual amount of support that the government will provide under these newly announced measures will be subject to the implementing regulations, which have not yet been issued. The Secretary of Agriculture has already announced that it will strictly enforce the requirement that producers show losses of at least 50 percent in order to benefit from the delay in payment of taxes. Under current regulations, producers delaying payment of taxes will also be required to pay an interest rate equivalent to 25 percent annually, although the GOA has promised to review this issue.

Reaction from the Campo

¶18. (U) Farm groups expressed anger at the limited nature of the emergency measures in a press conference after meeting with the Secretary of Agriculture on January 27. The producers' lobby groups indicated that the current measures were insufficient and demanded the elimination of export taxes on agricultural products and that the government stop limiting exports of beef, dairy products and grains. They also asked for low-rate credits to be able to face the next crop season, after losing a substantial part of the wheat, sunflower and corn crops this year. One of the farm leaders noted that the current measures were insignificant in light of the losses and contribution of the agricultural sector to government finances

in recent years, estimating that in the last four or five years the agricultural sector provided an additional 90 billion pesos (approximately US\$26 billion) in tax revenues to the government due to increased export taxes, while only getting back a bit more than US\$200 million in emergency assistance.

¶9. (U) Producers are currently threatening a reprise of the rural conflict with the GOA that dominated most of the first half of 2008 and cost the government dearly in terms of its political standing. The producers' groups are staging numerous assemblies across the country to determine what actions to take. They have warned that if there are no fundamental policy changes, producers will call a new national protest against the government. The main disagreement appears to be over when to start these protests (in February or March).

Comment

¶10. (SBU) The severe drought has added fuel to ongoing conflict between the rural sector and the GOA, which have been on a low simmer until recently. It appears that the latest GOA measures were taken to demonstrate to the public a measure of responsiveness, rather than to turn over a new, collaborative leaf with the rural sector. It appears likely that the conflict may be on the verge of erupting again. If it does, it could last for a long time, thereby becoming a factor in the legislative elections to be held this October. End Comment.

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